

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 1150, **Assembly Member Prenter** **(As Amended 08/27/98)**

Position: **Co-Sponsor (Staff Recommendation)**

Proponents: **CTA (Sponsor), ACSA CFT, CRTA, UTLA**

Opponents: **Unknown**

SUMMARY

AB 1150 incrementally increases the benefit factor of 2 percent at age 60 to 2.4 percent at age 63, for STRS members retiring on or after January 1, 1999.

HISTORY

AB 1074 (Epple, 1992), vetoed by the Governor, would have increased the age factor from 2 percent to 2.5 percent of final compensation for STRS members who worked until age 65 and had at least 20 years of service.

AB 2512 (Epple, 1994), vetoed by the Governor, would have prescribed an increased formula for certain members who retired after June 30, 1995, were over normal retirement age, and had a minimum of 20 years of credited service. The bill proposed a maximum percentage of 2.5 of final compensation per year of credited service at age 65.

CURRENT PRACTICE

Under the Teachers' Retirement Law (TRL), a service retirement allowance is paid to eligible members based on three elements: a retiree's service credit, his or her age at retirement and his or her final compensation. The TRL pays an allowance at age 60 equal to 2 percent of final compensation per year of service credit. The earliest age at which a teacher can retire from service with a monthly benefit under the STRS Defined Benefit (DB) plan is age 50, if the member has at least 30 years of service credit. A standard early retirement is available, at age 55, if the applicant has at least five years of credited service. A member retiring at age 55 would be paid 1.4 percent of final compensation per year of service. This initial benefit would increase, for each year that retirement was delayed, until age 60. There is no increase in this age factor for teachers who retire after the age of 60. (In contrast, school employees covered by PERS receive a maximum retirement allowance equal to 2.418% of final compensation per year of service at age 63.)

DISCUSSION

AB 1150 increases the age factor for STRS members to a maximum of 2.4% at age 63, thereby increasing the retirement allowance of members who retire after age 60. Specifically, the bill provides that a member who has attained age 60 $\frac{1}{4}$ years or more and who retires for service after January 1, 1999, will receive a retirement allowance, payable in monthly installments upon retirement, equal to the percentage of the final compensation at the member's age at retirement, multiplied by each year of credited service, as follows:

60 $\frac{1}{4}$	2.033% of final compensation per year of service credit
60 $\frac{1}{2}$	2.067%
60 $\frac{3}{4}$	2.100%
61	2.133%
61 $\frac{1}{4}$	2.167%
61 $\frac{1}{2}$	2.200%
61 $\frac{3}{4}$	2.233%
62	2.267%
62 $\frac{1}{4}$	2.300%
62 $\frac{1}{2}$	2.333%
62 $\frac{3}{4}$	2.367%
63 and over	2.400%

This would make the STRS retirement formula closer to that provided to classified school members covered by PERS.

As previously discussed with the Board, the findings of the Retirement Plan Study indicate that the benefit provided by the current STRS DB Plan may not adequately replace the salary earned by STRS members, according to a Georgia State University Study.

The increased formula under the bill for members retiring after age 60 would, however, increase that rate of replacement. Currently, for average members retiring after age 60, with annual wage increases of 5.5%, the STRS allowance equals 58% of the member's final annual salary. This bill increases that replacement rate to 70% by age 63.

In addition, with the expansion of the class size reduction program, many school districts are hiring more inexperienced, noncredentialed individuals as teachers. The change in the STRS benefits proposed in this bill may offer a longevity incentive and help retain experienced, effective teachers, thereby helping alleviate the teacher shortage.

Based upon data presented by the actuary in the June 1997 valuation, an estimated 14,000 members are currently active, and are between the ages of 60 to 64 and 11 months with four or more years of service credit. An estimated 5,248 are currently active age 65 and over with four or more years of credited service, for a total of 19,248.

The bill is contingent on passage of AB 2804, which provides funding for the increased benefits and AB1102, which provides additional benefits to STRS members.

FISCAL IMPACT

Program - The bill would result in a total contribution rate increase of about 2.2 percent of payroll, or about \$370 million annually, with the unfunded obligation component amortized over 30 years.

Administrative - \$150,000 one-time cost, of which \$100,000 is absorbable within existing resources. START Project costs are undetermined at this time

RECOMMENDATION

Staff recommends the Board adopt a position of Co-sponsor. The benefit increase proposed in this bill would provide an incentive for STRS members to continue working past age 60 acting as an important component of addressing the shortage of credentialed teachers in California and would provide a measure of increase toward achieving a higher replacement ratio for STRS retirees.